

Message Text

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PAGE 01 SAN JO 01390 301612Z
ACTION EB-08

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E.O. 11652: N/A
TAGS: ECON, CS
SUBJECT: PRESS ALLEGATIONS OF DETERIORATING ECONOMIC SITUATION

1. BRIEF VISITS OF IMF CENTRAL AMERICAN CHIEF MARCH 20 AND 21 TO PRESENT AND INCOMING GOCR OFFICIALS HAS LED TO A FLURRY OF PRESS INTERCHANGES BY ODUBER AND CARAZO FINANCIAL LEADERS. IMF OFFICIAL AND RESIDENT ECONOMIST, PREPARING FOR UPCOMING MID-YEAR IMF MISSION, ENCOUNTERED HIGHLY EMOTIONAL RESPONSE FROM INCOMING CENTRAL BANK PRESIDENT GONZALEZ AND ESPECIALLY ANTICIPATED CARAZO TEAM WOULD TAKE TO THE MEDIA TO BLAST PRESENT GOCR FOR NOT ALERTING COUNTRY TO POTENTIALLY DIFFICULT ECONOMIC OUTLOOK AS COFFEE BONANZA DEFLATES.

2. ON MARCH 27, LEADING SAN JOSE DAILY "LA NACION" CARRIED FRONT PAGE STORY ALLEGING THAT IMF HAD BEEN WARNING GOCR AND CENTRAL BANK FOR THE PAST TWO YEARS ABOUT THE GROWING DETERIORATION OF THE ECONOMY. FURTHERMORE, IT WAS ALLEGED THAT THE IMF ESTIMATED A BUDGETARY DEFICIT OF TWO BILLION COLONES AND A BALANCE OF PAYMENTS DEFICIT OF 500 MILLION DOLLARS FOR 1977. STORY CONCLUDED BY STATING THAT INCOMING CARAZO ADMINISTRATION OFFICIALS WERE APPRE-
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HENSIVE THAT IMF MIGHT PRESS FOR "PARITY CHANGES IN THE COLON." SUBSEQUENT DAY'S EDITION OF "LA NACION" CARRIED FRONT PAGE REPORT OF INTERVIEW WITH MINISTER OF FINANCE-DESIGNATE HERNAN SAENZ JIMENEZ RE PREVIOUS DAY'S REPORT OF IMF WARNINGS. SAENZ EXPRESSED AMAZE-MENT THAT A PROBLEM OF SUCH MAGNITUDE WOULD BE HANDLED IN SECRECY, BUT CONCEDED THAT HE DID NOT KNOW IF

"LA NACION" FIGURES WERE ACCURATE ONES.

3. CENTRAL BANK REACTION TO THESE STORIES CAME IN THE FORM OF A PRESS RELEASE PUBLISHED MARCH 29 IN LEADING DAILIES THAT REBUTTED POINT BY POINT ALL ALLEGATIONS CONTAINED IN "LA NACION". AS TO \$500 MILLION BALANCE OF PAYMENTS DEFICIT, THE CENTRAL BANK POINTED OUT THAT ACCORDING TO ITS PROJECTIONS THE 1978 DEFICIT WOULD BE \$28.5 MILLION AND THAT FOREIGN EXCHANGE RESERVES WOULD BE \$204 MILLION AT YEAR'S END, EQUIVALENT TO THREE MONTHS IMPORTS. CONCERNING THE ALLEGATIONS OF A TWO BILLION COLON DEFICIT, THE PRESS RELEASE RECALLED THAT THE BANK'S 1978 CREDIT AND MONETARY PROGRAM, WHICH WAS PUBLISHED IN DECEMBER 1977, ENVISAGES A 1.4 BILLION COLON DEFICIT. FURTHERMORE, IT POINTED OUT MINFIN WAS PREPARING A REPORT TO THE NATION ON THE FISCAL SITUATION, ANALYZING THE RESULTS OF 1977 AND MAKING PROJECTIONS FOR 1978.

4. COMMENT: "LA NACION'S" ALARMIST TREATMENT OF ISSUE HAS NOT CAUSED ANY IMMEDIATE SIGNIFICANT REACTION IN LOCAL FINANCIAL CIRCLES. DOLLAR-COLON EXCHANGE RATE ON LOCAL STOCK MARKET HAS REMAINED STEADY AT 8.66 COLONES TO THE DOLLAR, THE APPROXIMATE RATE THAT HAS PREVAILED FOR MORE THAN A YEAR.
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